

CITY OF FARGO – FARGODOME PERMANENT FUND

INVESTMENT POLICY STATEMENT

1. FUND CHARACTERISTICS AND CONSTRAINTS.

The City of Fargo has set aside excess sales tax collections intended for the administration of the FargoDome in the FargoDome Permanent Fund (Fund). The initial amount in the fund is approximately \$2.8 million with additional deposits of \$1 million per year until 2009. No withdrawals are expected to be made until after 2009 when the sales tax revenue is discontinued.

2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

3. INVESTMENT OBJECTIVES.

The investment objectives are to obtain a reasonable rate of return on the Fund while maintaining sufficient liquidity to meet known or anticipated financial obligations. Operating considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

4. STANDARDS OF INVESTMENT PERFORMANCE.

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 20% Russell 1000 domestic stock index, 12% Russell 2000 domestic small cap index, 18% First Boston Convertible Securities index, 49% Lehman Government/Corporate domestic bond index, and 1% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

5. POLICY AND GUIDELINES.

The asset allocation of the Fund is established by the *City of Fargo Finance Committee*, with input from RIO staff. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	23 %
Small Cap Domestic Equity	17 %
Convertible Bonds	10 %
Fixed Income	49 %
Cash Equivalents	1 %

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.

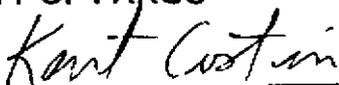
6. EVALUATION AND REVIEW.

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

Approved by:

CITY OF FARGO



Kent Costin
Director of Finance

Date: 9/26/02

STATE INVESTMENT BOARD



Steve Cochran
Executive Director/Investment Director, RIO

Date: 10-1-02

ND Retirement and Investment Office

Teachers' Fund for Retirement
State Investment Board

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
Fax 701-328-9897
www.discovernd.com/rio

Steve Cochrane, CFA
Executive Director

Fay Kopp
Deputy Executive Director



Memo

To: Kent Costin, FargoDome Fund
From: Connie Flanagan *cf*
Date: March 2, 2004
Re: Adjustment to Investment Guidelines

We are in the process of reviewing all of the Investment Guideline Statements for the funds invested by the State Investment Board (SIB). We would like to request a change in the language in Section 5 of your statement regarding allowable investments.

In subsection "a." we would like to change the policy "No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used." We recommend changing it to, "Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation."

In subsection "e." we would like to change the policy "No short sales or margin purchases shall be made." We recommend changing it to, "No unhedged short sales or speculative margin purchases shall be made."

These changes will facilitate the hiring of an additional large cap domestic equity manager who utilizes a futures strategy in an enhanced index portfolio. In the essence of time, we request that you indicate your approval of this change by signing below and returning this memo to us. You may want to keep a copy for your records. We will send out complete revised guidelines statements in the near future.

I approve of the changes indicated above. Signed *Kent Costin - Director of Finance*
Date *3/4/04*

RECEIVED

MAR 05 2004

NDRIO



Finance Office

P.O. Box 2083
200 3rd Street North
Fargo, North Dakota 58107-2083
Phone: 701-241-1333
Fax: 701-241-1526

RECEIVED

MAR 08 2005

NDRIO

March 7, 2005

Steve Cochran
Executive Director
1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100

Dear Steve,

Thank you for calling last week regarding the FargoDome Capital Escrow Fund. I presented a request to our Finance Committee to eliminate the 10% asset allocation to the convertible class of assets. Our decision is to increase the equity exposure by 10% so that our new overall asset allocation is 50% equity and 50% fixed income.

★ Please make this adjustment as soon as possible upon receipt of this letter. For the time being, you can allocate the 10% increase in the equities into the same equity managers currently utilized on a proportionate basis.

If you have any questions or concerns about this request, please call me directly at 701-241-8158.

Sincerely,

Kent Costin
Director of Finance

★ Used 60% large cap / 40% small cap split.
cf

